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Direct investor platforms grow as wirehouses shrink
By Rob Burgess
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Direct investor platforms are rising, while traditional wirehouses continue to lose market share, according to a recent Cerulli Associates report, "The State of U.S. Retail and Institutional Asset Management 2024."

Cerulli's research shows retail direct investor platforms grew faster than all other distribution channels from 2022 to 2023, posting a 22.2% growth rate — or $2.5 trillion of asset growth. Overall, retail direct market share has grown 5% over the eight years trailing 2023. The channel is expected to grow an additional 5% over the next four years and could see a 10% increase from 2016 to 2027.

Meanwhile, wirehouses have lost 4% of their market share since 2016 and are expected to lose another 4% by the end of 2027.

While these direct options could represent a sustained menace to their business models, advisors say they still have much to offer clients.

Clients don't know what they don't know
The retail direct channel "absolutely" presents a real threat to advisors, said Chris Diodato, founder of WELLth Financial Planning in Palm Beach Gardens, Florida.

"Much like LegalZoom is to lawyers and TurboTax is to accountants, retail direct platforms tell consumers that they can 'do it themselves,' and if they are uncomfortable, there are AI tools to help supplant traditional advisors," he said.

Diodato said this is a dangerous pitch since end clients usually don't know what strategies they may be missing.

"They look at marketing that says they don't need an advisor and can save money on fees, which are direct, explicit costs, and say, "Hey, I like that,'" he said. "They're great for folks who are just getting started or cannot afford a financial planner, but for somebody with significant assets and financial complexities, forgoing an expert to save a few thousand dollars on fees is probably a poor choice."

For those advisors who cannot evolve or offer a holistic wealth management experience, the retail direct channel presents a real danger to advisor-intermediated channels, said Brian Moran, founder and CEO of FLX Networks — an engagement solution between asset managers and wealth management firms.

"There are generational shifts underway that are driving a fundamental change

in how individuals are approaching investing," he said. "Younger investors have embraced technology and are far more comfortable taking advice from technology-driven platforms and allocation models compared to their older counterparts. Technology solutions continue to make advances that simplify usage by any generation."

Direct channels have their uses, too

While it's easy for advisors to immediately write off the direct channels and robo-advisors, Doug Kinsey, partner at Artifex Financial Group in Dayton, Ohio, said he believes that they play a role, especially for younger investors and those without enough complexity to engage with a planning firm.

"However, I also feel that for the clients who gain the most from full-service advisory relationships, the chances are that they will not get what they need from the direct channels," he said. "They will not get the most effective advice. So much of what we do is based on ongoing communications and discussions with our clients. The public needs wealth advisory firms to solve important personal financial concerns in an objective and unbiased way."

Channel usage in this case is not mutually exclusive, said William Trout, director of securities and investments at technology data firm Datos Insights. Many advised investors are active in the self-directed markets, including around options and futures.

"Some of these investors maintain a pot of 'play money' for trading, while others deploy a significant share of their assets in the self-directed markets," he said. "Either way, they are not likely to share the extent of their activities with their financial advisor."

Retail direct is evolving with more rudimentary planning tools that are helpful and will be stronger as AI matures, said John R. Power, a CFP with Power Plans in Walpole, Massachusetts.

"It won't be long — perhaps two to three years — before a retail client can pose a complex question and get a useful answer," he said. "Younger investors are comfortable with interacting with computers versus real people, but as they mature and grow some wealth, they will learn what they don't know and look to real advisors. Awareness of the difference will grow. But financial planners need to up their game, do full, comprehensive planning, provide actionable detail for clients and earn their fees."

Where advisors trump direct

Direct equals convenient, "which does not always mean better," said Kim Stirling, a financial planner at Next Gen Wealth Partners in Seattle.

"You get what you pay for," she said. "Consumers are romanced by the allure of algorithms and trillion-dollar platforms and aren't bothering to engage in a dialogue with a professional on other financial matters. Advisors listen, build

relationships and take a holistic approach. It's not just all about numbers and convenience."

Financial coaching and advice on healthcare investments, tax planning and other elements of holistic advice are areas where skilled advisors shine, said Trout.

"Self-directed platforms may offer investments and even planning-focused education, but that's about it," he said. "The ability to serve all sides of the client balance sheet — including savings, cash flow, insurance, credit and debt — defines the modern financial advisor. The full-service model delivers a lot of value and in most cases, can accommodate self-directed or non-discretionary investments within the broader portfolio."

Advisors will frequently say they are better equipped to keep a client accountable as well to empathize with a client's circumstances, Diodato said. Additionally, advisors are better at keeping clients on track with their investments.

"From the planning angle … an advisor knows how to ask the right questions to uncover opportunities," he said. "A direct-to-consumer model is reliant on the consumer's input, and they can easily miss things."

Direct options are often backed by beefy marketing budgets, economies of scale and one-size-fits-most deliverables, said Diodato.

"Their pitch is normally fee-centric," he said. "I wouldn't try to compete on that. I would try to compete by pointing out what can be missed."

Offering custom-tailored strategies can help speak to more complex clients, said Diodato.

"For instance, what if somebody works at a big tech firm and has half of their wealth in stock options?" he said. "A direct platform is not going to devise a plan and investment strategy that integrates with that."

Advisors and clients are human, after all

Behavioral coaching helps clients stick to time-tested investing principles and manage emotions amid market uncertainties, sensationalized news headlines or other factors that might lead to abandoning a well-planned investment strategy, said Said Israilov, a financial planner and wealth manager at Israilov Financial in San Francisco.

"Despite rapid advancements in direct investor platforms and growing applications of AI for self-directed investors, I don't believe they can replicate the critical role of the human factor in behavioral coaching," he said.

While some advisors may offer an integrated range of financial and planning solutions that direct channels can't — including banking, insurance and estate

planning, among others — every advisor has the potential to differentiate from technology by being a human, said Moran.

"Emotional intelligence, listening skills beyond that of a computer prompt and genuinely caring about the welfare of others can never be overestimated," he said. "It's all about the perception of the experience. Be responsive, available, willing to help, an advocate and make the client feel like they are more than just an account."